Climate Protection Campaign
Sonoma County, California
Big Vision, Bold Action

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California Energy Commission
Docket # 06-IEP-1c and 03-RPS-1078
docket@energy.state.ca.us

Re: 2007 Integrated Energy Policy Report (IEPR)- incentives for wind repowering and best practices for RPS-carbon market design.

These comments address the IEPR committee public input question 9a: *The RGGI plans to allocate a specified percent of CO2 allowances to a public goods charge fund, with the proceeds from the sale of these allowances used to provide incentives for energy efficiency and renewable energy. a. Should California adopt a similar mechanism?*

I am submitting these comments on behalf of the Climate Protection Campaign, based in Sonoma County, California. Since 2001, the Climate Protection Campaign has worked with 10 cities and local jurisdictions, as well as schools, businesses, and other stakeholders to quantify and reduce our community's greenhouse gas emissions.

We are writing to encourage the CEC to consider following the example of several Northeast states which have proposed to auction 100% of their RGGI allowances, and to request that you consider per capita compensation as an additional use for revenues.

The RGGI's proposed 100% auction allocation method is superior to a giveaway allocation in many ways. An auction captures the economic value of the atmosphere for the public. It avoids windfall profits and preferential treatment, and rewards early action. Every business is treated equally in an auction system. If permits are auctioned, then early voluntary action would be rewarded, because companies that had reduced their emissions would need fewer permits.

A giveaway of permits for free to companies will only result in windfall profits for fossil fuel industry. The Department's analysis is correct: whether companies are given permits for free or they pay for them in an auction, regulated companies will pass on the cost of the permits to other companies and to consumers. An auction avoids lobbying and political favoritism in the allocation of shares, and avoids the possibility of bureaucratic overallocation in a giveaway system. In a giveaway system, the allocation is administrative, and many allocation decisions may be subjective. An auction allows each regulated company to decide for themselves how many permits they want, and the market decides the allocation.

Per Capita Compensation

The RGGI's draft rule specifies that the 100% allowance auction is to be used for "energy efficiency and clean energy technology purposes", defined to mean the "promotion of energy efficiency measures, promotion of renewable or non-carbon-emitting energy technologies, and stimulation or reward of investment in the development of innovative carbon emissions abatement technologies with significant carbon reduction potential." In addition to spending auction revenues on public goods that will further reduce emissions, **we encourage the CEC to set aside a portion of the revenues from an auction to compensate citizens for higher energy prices. Another option is for the CEC to coordinate with the ARB to set aside funds from the overall carbon market to do this.** The Alaska Permanent Fund is an example of an existing state-run per capita compensation program. The Fund distributes proceeds from leasing state land to oil companies to all residents of the State of Alaska each year.[1]

Limiting carbon emissions will most likely raise fossil fuel prices. Distributing 'citizen dividends' can reduce the impact of higher fuel or electricity prices on households. Citizen compensation on a per capita basis would institutionalize equity and address disproportionate impacts to low-income households. A rise in fuel prices has a regressive impact, since low-income households spend a greater portion of their income on necessities like electricity. But the amount they spend is typically lower than high-income households. A per capita rebate or dividend would help low-income households (who typically use less electricity) more.

Per capita dividends would also reward low-emission households of all incomes. A person with a high emission lifestyle would end up spending more on electricity during the year than the dividend he received. By contrast, a low-emitting person would finish the year with a net income from the dividend. This was shown in a study by the Congressional Budget Office which compared the effects on different income quintiles of various allocation methods.[2]

According to the study, "The share of policy costs borne by households in the highest income quintile would be greatest if allowances were auctioned off and the revenue used to provide lump-sum rebates to all households. In that scenario, [see the chart below] households in the top quintile would experience a $940, or 0.9 percent, decline in average real income, while those in the lowest quintile would see their average income rise by $310, or 1.8 percent. Average household income in the lowest quintile would increase because those households' lump-sum rebates would be larger than their cost increases as a result of the policy. **Thus, CBO estimates, a carbon trading policy would have a progressive distributional effect if the government sold the allowances through an auction and divided the revenue equally among households."** [emphasis added]

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[1] Alaska Permanent Fund websites: http://www.pfd.state.ak.us/ and http://www.apfc.org/.

[2] Congressional Budget Office. "Who Gains and Who Pays Under Carbon-Allowance Trading? Chapter 3: Distributing the Overall Economic Effects Among U.S. Households." June 2000. http://www.cbo.gov/showdoc.cfm?index=2104&sequence=4

A carbon cap may lose political support over time, if electricity prices rise and consumers are not rewarded for reducing their emissions. Per capita compensation, such as a dividend, makes a carbon cap politically possible.

In addition to the dividend, another type of per capita compensation is called "Carbon Share." In Carbon Share, the State distributes the CO2 under the cap as per capita "shares" of CO2 to all citizens. Citizens cash the shares at banks and brokers. Banks and brokers sell the shares to the regulated companies on a private exchange. As the price of CO2 rises, the value of the dividend or Carbon Share would rise. Because citizens are receiving the scarcity rents from the increased prices of fossil fuels, citizens may continue to provide popular support for further emission reductions. Carbon Share may work better with a statewide cap than a sectoral cap, but is something to consider. Also, since a state-run auction would require significant investment by California government and there is potential for Federal pre-emption, or regional integration with other states, a private sector market such as Carbon Share could grow in scale to regional, national, or international size, following commodity exchanges already in existence. The State could avoid up-front investment, allow the private sector to make the investment, and still achieve the goals of revenue raising and citizen per capita compensation that they would get from public goods auction and auction with dividends. More information may be found on this option at www.carbonshare.org.

Please consider spending a portion of revenues on per capita compensation, either as a dividend like the Alaska Permanent Fund, or through a program like Carbon Share.

The Climate Protection Campaign recommends that the CEC follow the example of New York, Massachussetts, Vermont, Maine, and other states that are auction (sell) 100% of their RGGI carbon emission permits. Revenues should be used for public goods and per capita compensation.

Thank you for your consideration.

Sincerely,

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